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COMPARATIVE STUDY AND REGIONAL FINANCIAL PERFORMANCE AND ITS EFFECT ON THE ECONOMIC GROWTH OF DISTRICTS / CITIES IN JAMBI PROVINCE

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ABSTRACT

This research is entitled comparative study and regional financial performance and its effect on the economic growth of districts / cities in Jambi Province. The purpose of this study is todetermine and analyze the effect of regional financial independence ratio, income effectiveness ratio and efficiency ratio on economic growth in Jambi Province District/City. The analysis method used quantitative descriptive analysis with panel data regression method. The results showed that the income effectiveness ratio had a significant effect on economic growth, while the Regional Independence Ratio and the Income Effectiveness Ratio did not have a significant effect on the economic growth of Jambi Province districts/cities.

Keywords: Regional Self-RelianceRatio, IncomeEffectiveness Ratio,Income EffectivenessRatio, and Economic Growth

1.0 INTRODUCTION

Economic globalization and changes in the concept of national planning, especially the implementation of regional autonomy resulted in a new formulation of regional financial management. This is one form of how local governments prepare for a new era in international economic globalization and the era of implementing regional autonomy at the national level. In general, regional autonomy can be interpreted as an obligation given to autonomous regions to manage their own government affairs and the interests of local communities in accordance with laws and regulations. In managing their government, regions need an assessment to see whether financial management has been carried out efficiently and effectively how to assess the performance of regional financial management. The principles underlying regional financial management are transparency, accountability, and value for money (Mardiasmo, 2017). Transparency of openness in the process of planning, drafting, implementing regional budgets.

Transpansi means that community members have the same right and access to know the budget process because it concerns the aspirations and interests of the community, especially the fulfillment of the needs of the community. Accountability is the principle of public accountability which means that the budgeting process starting from planning, preparation and implementation must be truly reportable and accountable to the DPRD and the community. The public not only has the right to know the budget but has the right to demand accountability for the plan or implementation of the budget. Value for money applies 3 (three) principles in the budgeting process, namely economy, efficiency, and effectiveness. Economics is concerned with the selection and use of resources in a certain quantity and quality at the cheapest price. Efficiency means that the use of public funds (public money) can produce maximum output (useful). Effectiveness means that the use of the budget must achieve targets or objectives of the public interest.

Assessment of financial management performance is carried out on the Regional Budget (APBD). The budget as an instrument of government policy must be able to show good performance. The goal is to assess internally and encourage economic growth so that it is expected to cause a positive domino effect, namely reducing unemployment and reducing poverty. Performance related to the budget is financial performance in the form of a comparison between the components contained in the budget. Measurement of local government financial performance can use several ratios, namely the independence ratio is the ability of local governments to fund government activities, development, and services to communities that have paid taxes and levies (Halim, 2007). If the PAD obtained by the region is high, the percentage of PAD in financing the services of builders is also high, and vice versa (Florida, 2006). The revenue effectiveness ratio is the ability of local governments to realize the planned PAD compared to the targets set based on the real potential of the region (Halim, 2007). The efficiency ratio is a ratio that describes the comparison of expenditure realization with regional revenue realization (Halim, 2007: 234), and the revenue growth ratio functions in measuring the extent of the ability of local governments to maintain and improve their success from year to year (Halim, 2007).

One of the success indicators of financial management performance is success in increasing economic growth. With economic growth, it is hoped that this will open up opportunities for regions to improve the welfare of their residents. One indicator used to measure the success of a region's economic growth is the Gross Regional Domestic Product (GDP), which is the overall value added of goods and services produced by various economic sectors in a region in a certain period, usually one year.Measurement of regional financial performance capability in regional financial management can be seen from the structure of the Regional Budget (APBD) which describes the ability of a region to finance development implementation activities. APBD is the most important policy instrument for local governments. The budget as an instrument of government policy must be able to show good performance. Performance related to the budget is financial performance in the form of a comparison between the components contained in the budget. Comparison between the components contained in the budget according to Halim (2007) which is measured using several ratios developed based on financial data sourced from the APBD including independence ratio, income effectiveness ratio and efficiency ratio. In line with the objectives of financial ratio analysis, there are several indicators to see the success of regional financial management performance. To determine the ratio of independence in Jambi Province from 2018-2022, it can be seen fromthe realization of PAD to total or regional revenue realization. The greater the percentage of PAD to total regional revenue, the more independent the local government is in collecting revenue.

This shows that Jambi Province is very effective in realizing its revenue, but this is not supported by the independence of its region. The government must increase its regional independence in order to finance all regional expenditures without deficit. This research refers to research conducted by Kumpangpune (2019) which examines the Effect of Regional Financial Performance on Economic Growth and Its Impact on Poverty in Bitung City. This research uses 3 financial ratios to measure regional financial performance, namely the independence ratio, income effectiveness ratio and efficiency ratio. Based on this research, researchers used the independence ratio, income effectiveness ratio and efficiency ratio as independent variables in this study.

2.0 LITERATURE REVIEW

Regional Finance

Regional Finance is all rights and obligations of the region in the framework of the implementation of local government that can be assessed with money including all forms of wealth related to the rights and obligations of the region, within the framework of the Regional Budget further it can also be interpreted as all rights and obligations that can be assessed with money, as well as with all units, both in the form of money and goods, which can be used as regional wealth as long as it has not been owned/controlled by the state or higher regions and other parties in accordance with applicable laws and regulations (Mamesa, 1995 in Halim, 2007).

Regional Revenue and Expenditure Budget

According to Mahsun (2011) stated that the Regional Budget is a list that contains details of regional revenues and regional expenditures / expenditures for one year.

Regional Financial Performance Analysis

According to Bastian (2006), budget performance is a picture of the achievement of the implementation of an activity / program / policy in realizing the goals, objectives, mission and vision of the organization. Performance indicators are quantitative and qualitative measures that describe the level of achievement of a predetermined goal or goal, taking into account indicators of input, output, results, benefits, and impact. According to Mulyadi (2007), performance is the success of personnel, teams or organizational units in realizing strategic goals that have been set before the expected behavior. The term performance is often used to refer to the achievement or level of success of an individual or group of individuals and has defined success criteria.

Independence Ratio

A region can be said to be independent if the region is able to finance government activities and development independently without relying on funds from the central government. Regional independence is the goal of regional autonomy.

Revenue Effectiveness Ratio

Effectiveness comes from the word effective which contains the understanding of achieving the goals that have been set. Effectiveness is always related to the relationship between the expected results and the actual results achieved. Effectiveness can be seen from various points of view and can be assessed in various ways and has a close relationship with efficiency.

Efficiency Ratio

The government is required to be able to carry out every activity efficiently. Of course, activities carried out efficiently are expected to provide optimal benefits to the community. According to Mardiasmo (2017), efficiency is a comparison between outputs or inputs that are associated with performance standards or targets that have been set.

Economic Growth

Economic growth is a target that the economy wants to achieve in the long term, and as much as possible is consistent with short-term economic growth. Economic growth can explain and at the same time can measure the development performance of an economy. In actual economic activity, economic growth means the occurrence of fiscal economic development that occurs in a country such as: (1) the increase in the number and production of industrial goods; (2) infrastructure development; and (3) the increase in production resulting from economic activities that take place in a certain period, for example one year (Sukirno, 2013).

3.0 METHODOLOGY

The method used in this writing is a quantitative method and combines observation of time series data and cross section data or panel data. Data processing is carried out using Microsoft Excel software programs and E-views 9.0. Inthis study, the data tested were panel data (time series) and (crosssection), Gujarati (2003) suggested that there are advantages to using panel data compared to time series data or cross section. The basic model to be used in this study is asfollows:

Economic Growth it = βo+$\beta 1$ Independence Ratio it + $\beta 2$ Effectiveness Ratio it +$\beta 3$ Efficiency Ratio it + e

Where:

i	= number of observations (district-city) = 11
t	= Year of observation data (Year/time series) =
βo	= kostanta
βi	= coefficient (number of free variables) = 1,2,3
EGit	= Economic Growth (percent)
IRit	= Independence Ratio (Percent)
ERit	= Effectiveness Ratio (Percent)
ERIit	= Efficiency Ratio (Percent)
e	= error term

Regression analysis with panel data can be done with three estimation methods, namely Common Effect, Fixed Effect, and Random Effect estimation. Method selection is adjusted to the available data and reliability between variables. Before conducting a regression analysis, the step taken is to test the model estimate to obtain the most appropriate model estimate to use. After the model is selected, the next step is to test the research hypothesis consisting of statistical f testand statistical t test and coefficient of determination.

4.0 FINDINGS AND DISCUSSION

Hasil estimasi persamaan data panel tentang pelngaruh Rasio Kemandirian Daerah, Rasio efektivitas pendapatan dan Rasio Efisiensi Telrhadap Pertumbuhan Ekonomi Kabupateln/Kota di Provinsi Jambi Tahun 2017-2022 adalah sebagai berikut:

Tabel 1 Hasil Estimasi Fixed Effects Model (FEM)

variable	coefficient	std. error	t-statistic	prob.
c	-17.11332	9.302177	-1.839712	0.0715
Independence Ratio?	0.195850	0.230256	0.850573	0.3989
Effectiveness Ratio?	0.137806	0.038482	3.581027	0.0008
Efficiency Ratio?	0.054600	0.069406	0.786666	0.4350
fixed effects (cross)				
_kerinci--c	1.353924			
_merangin--c	0.854948			
_sarolangun--c	1.090882			
_baranghari--c	2.095793			
_muarojambi--c	0.928881			
_tanjabbar--c	-2.224935			
_tanjabtim--c	-2.164485			
_tebo--c	0.476499			
_bungo--c	0.115119			
_kotajambi--c	-3.356765			
_sungaipenuh--c	0.830139			
	effects specification			
cross-section fixed (dummy variables)				
r-squared	0.329775	mean dependent var		3.933788
adjusted r-squared	0.162219	s.d. dependent var		2.617334
s.e. of regression	2.395656	akaike info criterion		4.771022
sum squared resid	298.4366	schwarz criterion		5.235495
log likelihood	-143.4437	hannan-quinn criter.		4.954557
f-statistic	1.968146	durbin-watson stat		1.803794
prob(f-statistic)	0.043053			

Sumber: Data Diolah, (2024)

Based on the results of the estimation of the Regional Independence Ratio table 1, it can be known that the explanation of each variable in the study, namely the Regional Independence Ratio, the Income Effectiveness Ratio and the Efficiency Ratio to Economic Growth of Kabupateln/City in Jambi Province in 2017-2022, can be explained the model equation as follows:

Economy Growth it = -17,11332 + 0,195850 Independence it + 0,137806 Effectiveness it + 0,054600 Efficiency it + e

Based on the Model Equation above, it can be explained that the results of the estimation of the Fixed effect are if there is a change between the Regional Independence Ratio, Income Effectiveness Ratio and Efficiency Ratio both between regions and between times, then the constant value is -17.11332 This means that if the Regional Independence Ratio, Income Effectiveness Ratio and Efficiency Ratio remain fixed, Economic Growth in Jambi Province in 2017-2022 is -17.11332 percent. The value of the Regional Independence Ratio coefficient of 0.195850 and fixed or constant variables can be interpreted when the Regional Independence Ratio increases by one percent, the economic growth of Kabupateln/Kota in Jambi Province increases by 0.195850 percent. The value of the coefficient of income effectiveness ratio of 0.137806 and fixed or constant variables can be interpreted when the income effectiveness ratio increases by one percent, the economic growth of Kabupateln / City in Jambi Province has increased by 0.137806 percent. The value of the Efficiency Ratio coefficient of 0.054600 and fixed or constant variables can be interpreted when the Efficiency Ratio increases by one percent, the economic growth of Kabupateln / City in Jambi Province has increased by 0.0546 percent.

Estimation of FEM Model Coefficient District/City in Jambi Province

From the estimation results using the Fixed Effect Model, it can be explained that each district/city in Jambi Province has different intercept values. Individual Fixed effect can be seen from the following table:

Tabel 2 Fixed Effect Estimasi Model FEM

District/City	Fixed Effect
Kerinci	1.353924
Merangin	0.854948
Sarolangun	1.090882
Batanghari	2.095793
Muaro Jambi	0.928881
East Tanjung Jabung	-2.224935
West Tanjung Jabung	-2.164485
Tebo	0.476499
Bungo	0.115119
Kota Jambi	-3.356765
Full River City	0.830139

Source: Processed Data, (2024)

Coefficient of Determination

Based on the estimation of the Regional Independence Ratio of the FEM model, it was found that the R-Squared value was 0.329775, meaning that the variables Regional Independence Ratio, Income Effectiveness Ratio and Efficiency Ratio affected the economic growth of districts / cities in Jambi Province by 32.98 percent, while 67.02 percent was influenced by other variables outside this study.

Statistical F Test

Based on the results of the estimation of the Regional Independence Ratio of the FEM model, it was found that the value of Prob (f Statistical) 0.043053 < 0.05, then it means that Ho was rejected and accepted Ha, which means that the test together shows the Regional Independence Ratio, Income Effectiveness Ratio and Efficiency Ratio together have a significant effect on the economic growth of districts / cities in Jambi Province.

Statistical t Test

To test the significance of the effect of Regional Independence Ratio, Income Effectiveness Ratio and Efficiency Ratio on district / city economic growth in Jambi Province partially, a statistical t test was used. The statistical t test is useful to see the magnitude of the influence of each independent variable on the dependent variable partially. The confidence level of 95 percent probability is 0.05 which can be seen in the following table:

Table 3 Statistical t Values of FEM Methods

Variable	Prob.	Information
Independence Ratio	0.3989	Insignificant
Effectiveness Ratio	0.0008	Significant
Efficiency Ratio	0.4350	Insignificant

Source: Processed Data, (2023)

Based on table 3 can be explained the results of the statistical t test as follows: If viewed from Prob of 0.3989 because Prob > 0.05, then H0 is accepted and Ha is rejected. This shows that the Regional Independence Ratio does not have a significant effect on the economic growth of districts / cities in Jambi Province. When viewed from Prob of 0.0008 because Prob < 0.05, then H0 is rejected and Ha is accepted. This shows that the income effectiveness ratio has a positive and significant effect on the economic growth of districts / cities in Jambi Province. When viewed from Prob of 0.4350 because Prob > 0.05, then H0 is accepted and Ha is rejected. This shows that the Efficiency Ratio does not have a significant effect on the economic growth of districts / cities in Jambi Province.

The Effect of Regional Independence Ratio on Economic Growth

Based on the results of the study that the Regional Independence Ratio does not have a significant effect on the economic growth of districts / cities in Jambi Province. This result agrees with research conducted by Kumpangpune (2019) which said the Regional Independence Ratio does not have a significant effect on Economic Growth. This shows that the Regional Independence Ratio in the districts / cities of Jambi Province has not been able to encourage the economic growth rate of districts / cities in Jambi Province. Based on the theory of fiscal federalism in Halim (2012), the application of fiscal decentralization in an area where the area is expected to be able to finance all government activitiesby itself. Not only that, with fiscal decentralization, local governments can provide better public services and create a more democratic public decision-making process. If the region is unable to implement fiscal decentralization, i.e. devolution of authority from the center, the region will be left behind, causing a setback in economic development. According to Mahmudi (2015), the higher the Regional Independence Ratio, the greater the flexibility of local governments to finance government expenditures whose benefits can increase economic growth. The non-impact of the Regional Independence Ratio in the districts / cities of Jambi Province on economic growth because the realization of the Regional Independence Ratio of all districts / cities of Jambi Province is still very low with an average of only 8.81 percent so that the remaining 91.19 percent depends on transfer funds from the center, thus showing that the districts / cities of Jambi Province have not been independent in financing their regional expenses. In addition, the development of the regional independence ratio in the districts / cities of Jambi Province also shows a negative trend during 2017-2022, which is -0.51 percent per year. Conversely, in order for economic growth to increase, a large budget is needed to be allocated to government programs that can touch either directly or indirectly on economic growth. However, because the regional independence ratio is low and even shows negative development, the Regional Independence Ratio is not enoughto contribute to encouraging the rate of economic growth in the districts / cities of Jambi Province.

Effect of Income Effectiveness Ratio on Economic Growth

Based on the results of the study that the income effectiveness ratio has a positive and significant effect on the economic growth of districts / cities in Jambi Province. This result agrees with research conducted by Hera (2021) which says that there is a positive relationship between the income effectiveness ratio of poor people. This shows that if the income effectiveness ratio increases, economic growth can also increase. Based on the theory of fiscal federalism in Halim (2012), the application of fiscal decentralization in a regional area so that the region becomes better. Local governments are required to be able to provide better public services and also be able to explore revenue potential independently. In developing and developing the economy, local governments have the right and obligation to regulate and manage their own government affairs to improve the effectiveness of government administration. According to Mahmudi (2015) the degree of success of a region in managing the budget and managing the potential contained in the area can be related to the economic development in the area, the more successful in achieving the desired target or the more effective, the economic development should increase. This will affect people's welfare. The ratio of income effectiveness to economic growth is due to the effectiveness ratio of economic income districts / cities in Jambi Provinceis in the very effective category with an average ratio of 100.90 percent. The regional revenue target continues to increase annually with an average regional revenue target in the 2017-2022 period of Rp. 1,248,709 million and the realization is able to exceed the set target. So that increase will give the government the ability to finance all the required budget thathas an impact on economic growth.

The Effect of Efficiency Ratio on Economic Growth

Based on the results of the study that the Efficiency Ratio does not have a significant effect on the economic growth of districts / cities in Jambi Province. This result agrees with Hera (2021) who said that the Efficiency Ratio has no effect on economic growth. The efficiency ratio does not affect economic growth because regional expenditures used to generate income are not carried out efficiently. The average efficiency ratio is 99.22 percent and there are even several areas that have an efficiency ratio of more than 100 percent, namely Merangin Regency at 100.36 percent, Muaro Jambi Regency at 100.17 percent, Jambi City at 100.01 percent and Sungai Full City at 100.12 percent. This means that this region has a budget deficit in using its regional expenditures. This adversely affects economic growth. Large regional expenditures should be able to generate large regional revenues as well, especially in local original income.

5.0 CONCLUSION

Based on the results of the study, it shows that the results of the t test or partial result test show that the variable Income effectiveness ratio has a significant effect on economic growth because the Prob value is 0.0008 < 0.05. Meanwhile, the variables of Regional Independence Ratio and Income Effectiveness Ratio do not have a significant effect on the economic growth of Jambi Province districts / cities during 2017-2022.

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